

THE MET PROGRAM: A SUMMARY

The Michigan Education Trust (MET) was established pursuant to Public Act 316 of 1986 as Michigan's guaranteed tuition program. The program is designed to help students and their families save for a future college education. MET is an important part of Michigan's strong commitment to higher education, students and their families. MET allows parents, grandparents, businesses and others to prepurchase undergraduate tuition for a child residing in Michigan at any Michigan public university or college, including 28 public community colleges. MET also provides benefits if a student chooses to attend a Michigan independent (private) or out-of-state college or university, although it does not cover full tuition at these schools.



While this summary outlines many of the responsibilities of the purchaser and beneficiary, the most important responsibility is the obligation of academic achievement. Educational benefits under MET contracts are conditioned upon the beneficiary's acceptance at a Michigan public college or university. MET does not guarantee acceptance to a Michigan public college or university.

Since 1988, over 77,000 MET contracts have been purchased. Approximately 17,900 students are currently using their MET benefits at Michigan public universities and colleges, Michigan independent (private) colleges and over 1,046 out-of-state institutions.

A nine-member Board of Directors with public and private sector members administers the program. By law, the Board must have representation from the academic, business and/or financial fields.

MET's Guarantee

Under the contract, MET will guarantee payment of tuition and mandatory fees without further charge for the

educational benefits you have paid for. MET guarantees in-state tuition at public four-year colleges and universities in Michigan or in-district tuition at public community colleges in Michigan.

It is important that you understand the nature of this guarantee. MET is a public body created by Michigan's legislature, administratively housed within the Michigan Department of Treasury. MET must operate and finance its activities only through its assets. To protect its assets from other uses by the state, only MET, and not the state, controls its assets.

Your contract will be a "Plan D" contract. All assets from Plan D contracts will secure your contract. Since MET's guarantee is based on those assets, it is limited. While your contract is also made on behalf of the state, the legislature would need to appropriate funds, a discretionary act, for any state subsidy to the MET program.

In order to protect you and your beneficiary, an actuarial review will be made annually and future contract prices will be adjusted to ensure MET's actuarial soundness. If the assets pledged to your contract and future contract payments from similar contracts are not sufficient to maintain MET's actuarial soundness, and if the legislature does not appropriate sufficient money to MET, these assets will be returned to you and other purchasers on a pro rata basis. Further explanation of this is in Section 8 of the contract.

Current Actuarial Review

By law, an actuarial evaluation must be performed annually to determine MET's ability to pay future benefits. The review covers the fiscal year October 1 through September 30. Since MET's introduction in 1988 these reviews have declared the Trust actuarially sound.

Upon completion of the actuarial review, an annual report is prepared and sent to all MET purchasers as required by law. Annual reports beginning with the 2000-2001 fiscal year are also available on line at www.met4kid.com or upon request to the MET office at 800 MET-4-KID (638-4543).

Administrative Costs

Up to one percent of the total asset value can be used for program administration. However, for fiscal year 2005, less than 0.30 percent of the total assets was used for program administration. The only fees charged are a processing fee, transfer fee, termination fee or monthly purchase late fee. No other fees will be charged.

Eligibility to Enter into a MET Contract

The purchaser and beneficiary must meet all the eligibility criteria to enter into a contract.

Purchaser criteria:

- The purchaser must reside in the United States.
- MET contracts cannot be purchased by residents of Arizona, Illinois, New York, North Dakota, Ohio and Vermont due to those states' security laws.
- The purchaser must sign and submit the MET Contract Signature Page and the total contract price by mail to the MET office or submit in person at a Treasury office.
- You may enroll online and send the contract price electronically, but the Contract Signature Page must still be printed and mailed to MET in order for your contract to be processed.
- If the purchaser elects to make monthly purchases, only the processing fee must be submitted with the Contract Signature Page. See Contract Section 3.

Beneficiary criteria:

- The beneficiary must be a Michigan resident at the time of purchase.
- Beneficiary must be within the age or grade requirements provided on the price chart.

Access to Contract Information

MET will protect private information. MET will disclose specific contract information only to

those persons listed on the contract as beneficiary, purchaser, or appointee. MET will only provide general program information to all other inquiries.

Educational Benefits Provided

The University Full Benefits Plan Contract provides in-state tuition and mandatory fees at any Michigan public university or in-district or out-of-district (as defined in the contract) tuition and mandatory fees at Michigan public community colleges up to the number of credit hours required for a standard four-year undergraduate baccalaureate degree (usually 120 semester credit hours). Individuals may purchase in semester increments up to 8 semesters (4 years) of tuition.

The University Limited Benefits Plan Contract provides in-state tuition and mandatory fees at Michigan public universities or in-district or out-of-district (as defined in the contract) tuition and mandatory fees at Michigan public community colleges whose tuition does not exceed 105 percent of the weighted average tuition of all Michigan public four-year universities. This does not exclude a student from attending any Michigan public university or college; however, full tuition will not be provided for those Michigan public universities or colleges whose tuition exceeds 105 percent of the weighted average tuition.

Students who attend a Michigan public university or college where tuition is not fully covered under the Limited Benefits Plan Contract will receive the number of credit hours MET can purchase at the time of college enrollment with 105 percent of the weighted average tuition of all Michigan public four-year universities. For example, in 2005, if a student with a four-year Limited Benefits Plan Contract attends the University of Michigan, Ann Arbor, MET will pay for 92 credit hours. If that student attends Michigan State University, MET will pay for 108 credit hours. If that student attends Michigan Technological University, MET will pay for 104 credit hours



(a standard 4-year baccalaureate degree requires 120 semester credit hours). Individuals may purchase in semester increments up to 8 semesters (4 years).

The Community College Plan Contract provides only in-district tuition and mandatory fees at any Michigan public community college. An individual may purchase in semester increments up to 4 semesters (2 years) under this contract. Some areas of the state are not within a community college district. Students who attend a community college out of their district will be responsible to pay the difference between the out-of-district and in-district tuition cost.

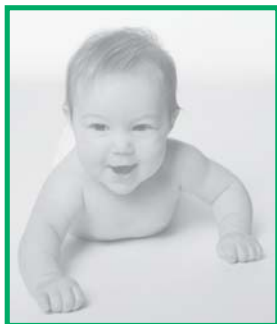
MET does not cover room, board, books, non-mandatory fees and other expenses.

If a beneficiary attends a Michigan independent (private) college or university, an out-of-state institution, or attends a college/university under a full tuition scholarship, refer to the paragraph entitled “Using MET to Attend Other Colleges” on page 5.

Monthly Purchase Contracts

The purchaser of a monthly purchase contract buys a percentage of educational benefits with every monthly purchase amount received by MET. The percentage of educational benefits purchased differs based on the number of years over which the purchaser elects to make monthly purchases. See Contract Section 3(g). The monthly purchase price includes an amount to reflect lost MET investment return, so that the total amount paid will be more than a lump sum purchase. That rate of return appears in the price chart.

Monthly purchases can be made by coupon book, payroll deduction or Automatic Clearing House (ACH). Depending on the date a monthly purchase contract is submitted, monthly payments will begin either February 25, May 25 or September 25. Subsequent monthly payments are due on the 25th of each month.



A purchaser must make monthly purchases as required. The purchaser must pay a \$10.00 late fee for late payments. The purchaser must pay the monthly purchase amount and the applicable late fee within 60 days from the scheduled monthly purchase due date or he/she may not continue making monthly purchases.

A purchaser is not obligated to continue making monthly purchases. If a purchaser elects to discontinue making monthly purchases, MET has no legal right to pursue the purchaser to make monthly purchases. A purchaser who discontinues making monthly purchases will acquire only those educational benefits for which monthly purchases have been accepted by MET. The monthly purchases accepted remain with MET until the beneficiary reaches age 18 or graduates from high school. A purchaser who has stopped monthly payments may enroll to acquire additional educational benefits during a future enrollment period at the new cost.

If the purchaser wishes to pay the entire balance due more than one year before the final monthly purchase amount is due, MET will provide the purchaser an early payment discount.

Transferring Between Colleges/Universities

With the University Full Benefits and Limited Benefits Contracts, beneficiaries may attend a Michigan public community college before attending a Michigan public university. If the beneficiary has four years of educational benefits and the beneficiary attends a Michigan public community college for not more than two academic years or receives an associate degree within two academic years before transferring to a Michigan public university, the beneficiary will be entitled to the number of additional credit hours required to complete a four-year baccalaureate degree. This will apply even if all credit hours at the community college do not transfer to the Michigan public university. This does not apply if the beneficiary has less than four years of educational benefits or if the beneficiary transfers to a Michigan public

university after attending more than two academic years at a Michigan public community college, unless the beneficiary of four years of educational benefits receives an associate degree within two academic years. In those cases, the beneficiary will receive only the credit hours remaining under the contract. Transfers among all Michigan public institutions are permitted. See Contract Section 2.

Use of Educational Benefits

The purchaser must specify on the contract the academic year the beneficiary is expected to begin college pursuant to the price/academic year chart provided as a separate insert for the applicable enrollment period. That year determines the beginning of the nine-year time period in which the beneficiary must use the educational benefits.

A beneficiary has nine years from the beginning of the academic year specified in the contract to use all educational benefits under the contract. Failure to completely exercise his or her rights under the contract within nine years will result in the contract termination and a refund of only the contract price MET received less the value of educational benefits or refund previously paid by MET. See Contract Sections 5 and 8.

The beneficiary must notify MET when he or she is ready to begin college. A student handbook which contains the forms and instructions for activating a MET contract is sent to eligible beneficiaries in the spring of their senior year of high school. See Contract Section 5.

A beneficiary who advances through high school at an accelerated pace may use his/her educational benefits early. Documentation of the beneficiary's acceleration is required by MET.

Contract Transferability to Family Members

MET recognizes the importance of the ability to transfer all or a portion of the contract benefits. Under certain conditions, educational benefits may be transferred to an immediate family member as defined in the contract. However, educational benefits transferred after the original beneficiary has earned more

than one-half of the credit hours required for the awarding of a four-year baccalaureate degree at a Michigan public university must be used at a Michigan public institution or terminated for a refund payable to a higher education institution as defined in the contract. Termination by the new beneficiary for a refund payable to the refund designee is not allowed. To protect MET, the transfer will be subject to an additional contract payment if the new beneficiary is older than the original beneficiary and the new beneficiary was ineligible to purchase the contract in the year the contract was purchased. No payment of any type can be made to anyone, except MET, for transfer of a contract. See Contract Section 6.

Using MET to Attend Other Colleges

To provide purchasers and beneficiaries flexibility, the contract provides detailed termination and refund provisions. If the beneficiary chooses to go to a Michigan independent (private) college or university or to an out-of-state college, MET does not provide full tuition at those institutions and, to that extent, the right to educational benefits will end. See Contract Section 7 and the Termination Refund Provisions chart on pages 12 & 13.

Full Benefits:

1. When students with a Full Benefits Plan Contract choose to attend a Michigan independent (private) college or university and direct the refund to the institution, MET will make refund payments based on the weighted average tuition of all Michigan public four-year universities.



2. When students choose to attend an out-of-state college and direct the refund to the institution, or when students receive a full-tuition scholarship, refund payments will be based on the average tuition of all Michigan public four-year universities.

3. Students choosing not to attend college will receive refund payments based on the Michigan public four-year university with the lowest tuition.

Limited Benefits:

1. When students with a Limited Benefits Plan Contract choose to attend a Michigan independent (private) college or university and direct the refund to the institution, MET will make refund payments based on the weighted average tuition of the Michigan public four-year universities whose tuition does not exceed 105 percent of the weighted average tuition.

2. Students choosing to attend an out-of-state college, who receive a full-tuition scholarship or who choose not to attend college will receive refund payments based on the Michigan public four-year university with the lowest tuition.

Community College:

1. When students with a Community College Plan Contract choose to attend a Michigan public university or a Michigan independent (private) college or university and direct the refund to the institution, MET will make refund payments based on the weighted average tuition of Michigan's public community colleges.

2. When students choose to attend an out-of-state college and direct the refund to the institution or when students receive a full tuition scholarship, refund payments will be based on the average tuition of Michigan public community colleges.

3. Students not attending college will receive refund payments based on the Michigan public community college with the lowest tuition.

Termination Refund Provisions

Use the chart on pages 12 & 13 to see the conditions under which refunds can be made. In accordance with the MET law, refund amounts are determined in the year the contract is terminated (as allowed by the beneficiary's expected academic year). Under the Full and Limited Benefits Contracts, the refund amounts do not change to reflect tuition increases after the first year the contract is terminated. Under the Community College Contract, the refund amounts may be adjusted when a student attends a college/university.



Loss of Refunds

The most significant restriction on termination of the MET contract is a provision in the law which restricts termination if the beneficiary has earned more than one-half (1/2) of the credit hours necessary to receive a four-year baccalaureate degree at a Michigan public four-year university. For example, after earning more than one-half of the credit hours at a Michigan public Higher Education Institution, the contract cannot be terminated for a refund payable to the refund designee. However, the contract can be terminated for a refund payable to a higher education institution as defined in the contract. Any terminated refund amount not paid to a higher education institution is forfeited. The right to request a refund may also be lost in instances of or failure to use contractual educational benefits or receive a full refund within nine years from the beginning of the academic year specified in the contract. See Contract Section 8.

Tax Issues

This tax discussion is included for general information only. Consult a tax advisor for advice on how the purchaser/beneficiary might be specifically affected as a result of program participation.

State Income Tax Deduction

A purchaser may deduct the amount paid for a contract from taxable income when determining Michigan income tax for the year in which the contract is purchased.

Federal and State Income Tax Matters

MET is a qualified tuition program under Section 529 of the Internal Revenue Code. Starting January 1, 2002, MET benefits used to pay college tuition and mandatory fees are exempt from federal and Michigan income taxes. If, however, a MET contract is terminated and the refund is not used to pay qualified higher education expenses, contract "earnings" (the value of the refund over the amount paid for the corresponding portion of the contract) could be subject to federal and Michigan income taxes and a 10% federal excise tax. The person receiving the refund will be responsible for those taxes.

Unless extended by Congress, this federal tax exemption, like all tax changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001, is scheduled to expire at the end of 2010.

The Hope Scholarship Credit allows a credit against federal income tax of up to \$1,500 each year for qualified tuition and fees paid for the first two years of a student's post-secondary education. The Lifetime Learning Credit allows a credit against federal income taxes equal to 20% of tuition and fees paid on behalf of the taxpayer, the taxpayer's spouse, or any dependent.

MET benefits may not be used for the same expenses for which a Hope Scholarship or Lifetime Learning Credit is claimed.

There is also a deduction for up to \$4,000 for higher education tuition and fees available for federal income tax purposes. Subject to income limitations, the amount reflecting the cost of purchasing a MET contract, when used to pay tuition and fees, may qualify for the Tuition and Fees Deduction. The Tuition and Fees Deduction can't be claimed for any expense for which a Hope Scholarship or Lifetime Learning Credit is claimed.

You may purchase a MET contract and contribute to a Coverdell Education Savings Account (ESA) in the same year without penalty.

These descriptions of the Hope Scholarship Credit, Lifetime Learning Credit, Tuition and Fees Deduction, and Coverdell ESA are not exhaustive, therefore, you should consult with a tax advisor concerning specific questions on how the federal tax law may affect you.

Federal Gift Tax

A MET contract purchase constitutes a gift from the purchaser to the beneficiary, other than a purchaser or purchaser's spouse. That gift does not require payment of any federal tax until the purchaser has made lifetime gifts in excess of the corresponding unified credit amount. (At present, the lifetime gift amount is \$1,000,000 for an individual.) The purchaser may need to file a Federal Gift Tax Return (Form 709) for the year the contract is purchased. A special election exists that allows the contributor to elect to prorate the entire taxable gift amount that exceeds the annual "present

interest" gift tax exclusion limit, allowing the contributor to have the contribution treated as if made over a five-year period.

Financial Aid

The purchase of a MET contract, like any other investment that is made in a child's name, will have an effect on the child's ability to receive various forms of financial aid. Currently, financial aid eligibility is based on a number of factors, including a family's size, income, assets and the age of the parents. It cannot be determined what effect a MET contract may have on future financial aid eligibility until the beneficiary actually applies for financial aid. There are three major sources of financial aid—federal government, state government and colleges and universities. Each entity has different rules regarding financial aid eligibility. Before a decision to purchase a MET contract is made, the purchaser may wish to check with these entities regarding how it affects financial aid eligibility.

Impact on Medicaid Eligibility

Purchasing a MET contract could adversely impact your eligibility for federal and state health care assistance programs and, in particular, Medicaid long term care assistance. When determining Medicaid eligibility, it is probable that Medicaid authorities will consider the MET contract to be the purchaser's "available" asset for up to 36 months after the contract's purchase.

MET's Privacy Policy

MET collects non-public personal information about contract purchasers, appointees, and beneficiaries from the following sources:

- Information we receive from applications or other forms
- Information about your transactions with us.

We do not disclose any non-public personal information to anyone except companies that perform marketing or administrative services on our behalf, the Michigan Education Savings Program, or as required by law.

MET restricts access to your personal and account information to those employees who need to know that information to provide products or services to you. MET maintains physical, electronic, and procedural safeguards that comply with federal regulations to guard your non-public personal information.